



# 2.

## Financial Statement Audits and Other Reports

**2020 ANNUAL REPORT**

Auditor General of the Ville de Montréal



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## 2. Financial Statement Audits and Other Reports

### 2.1. Introduction

The *Cities and Towns Act* (CTA) no longer subjects the Auditor General to the obligation of conducting the financial audit of the Ville de Montréal (the City), paramunicipal bodies, the breakdown of mixed expenditures and the overall tax rate, but he may continue to do so if he deems it appropriate. We still consider it appropriate to continue our financial audits of the City and the breakdown of mixed expenditures. For paramunicipal bodies, we maintained our strategy, which was to use a risk assessment matrix to assess entities for which the Auditor General deemed it appropriate to continue conducting audits and, consequently, to conduct a co-audit with the external auditor appointed by the City.

The Auditor General conducts audits in accordance with Canadian generally accepted auditing standards. The audit is planned and performed to provide reasonable assurance that the financial statements are free of material misstatement. It involves implementing procedures to obtain evidence about the amounts and information provided in the financial statements. An audit also includes assessing the appropriateness of the accounting methods used and the reasonableness of accounting estimates made by management, as well as assessing the overall presentation of the financial statements.

The Auditor General's audit of the financial statements does not in any way relieve management of its responsibilities, which include the preparation and fair presentation of the financial statements in accordance with the applicable accounting framework and the internal control it considers necessary to enable the preparation of financial statements that are free of material misstatement.

The work done on the risk of fraud by the Bureau du vérificateur général as part of the audit of the financial statements does not relieve the management of the City and of the organizations subject to section 107.7 of the CTA of their responsibility for the prevention and detection of fraud. Therefore, due to the limitations inherent in the financial audit, the risk that some material misstatements resulting from the risk of fraud are not detected remains despite the fact that the audit work has been planned and performed in accordance with Canadian Auditing Standards (CAS).

## 2.2. Consolidated Financial Statements of the Ville de Montréal

In accordance with the provisions of the CTA in force on December 31, 2020, to the extent deemed appropriate by the Auditor General, we audited the City's financial statements.

The *Charter of Ville de Montréal, Québec's Metropolis* (Charter of Ville de Montréal) and the CTA both require the City to submit its financial statements to the Service du greffe by March 31 following the close of the preceding year and to the Ministère des Affaires municipales et de l'Habitation (MAMH) in the prescribed form, before May 15. In the context of the COVID-19 public health crisis, the MAMH will apply administrative tolerance with regard to the deadline to submit the financial report up to June 30, 2021.

The audit of the financial statements was planned and performed jointly with Deloitte, the independent auditor appointed by the City. Doing this work together avoids duplication of work and costs for the municipality.

The consolidated financial statements include the activities of organizations belonging to the City's reporting entity. The inclusion of an organization in the reporting entity is based on the concept of control, that is, the power to direct the financial and administrative policies of another organization so that its activities will provide the expected benefits to the municipal organization or expose it to a risk of loss. These organizations are the Société de transport de Montréal (STM), the Société d'habitation et de développement de Montréal (SHDM), the Société du parc Jean-Drapeau (SPJD), the Conseil des arts de Montréal, the Office de consultation publique de Montréal (OCPM), Anjou 80, the Société en commandite Stationnement de Montréal (SCSM), the Agence de mobilité durable (AMD), the Bureau du taxi de Montréal (BTM) and BIXI Montréal.

On May 10, 2021, jointly with Deloitte, we issued an unqualified auditors' report on the consolidated financial statements of the City as of December 31, 2020.

The auditor's report on the City's consolidated financial statements and the report on mixed expenditures are included in the annual financial report filed with the City's Service du greffe on May 12, 2021.

In addition, joint auditors' reports on the City's consolidated financial statements and on the breakdown of mixed expenditures will be produced and recorded on the form required by the MAMH. In accordance with the provisions of the CTA, the form required by the MAMH, along with the two aforementioned joint auditors' reports on the consolidated financial statements, will be filed with city council and the urban agglomeration council before being sent to the MAMH in June 2021.

## Highlights of the Audit for the Year Ended December 31, 2020

The process of auditing the financial statements of December 31, 2020, was complicated by the fact that two key issues had to be addressed: implementing revised CAS 540, *Auditing Accounting Estimates and Related Disclosures*, and the granting of emergency loans to small and medium-sized businesses in the context of COVID 19 through six PME-MTL which are legally constituted as legal persons.

In the process of reviewing the revised CAS 540, *Auditing Accounting Estimates and Related Disclosures*, the City revised its estimates of the useful lives of its capital assets, leading to a downward adjustment of depreciation expenses amounting to \$223 million a year. However, we issued a recommendation in this matter in 2016, and for the past four years it has remained unresolved.

These loans to PME-MTL required coordination with these organizations and their auditors. As of December 31, 2020, \$67.1 million had been granted under the “Emergency Assistance for Small and Medium-Sized Businesses” (EASMSB) program and the “Assistance for Businesses in Regions Under Maximum Alert” (ABRUMA) component.

Coupled with this is the fact that in 2020–2021, all work was done remotely.

## Organization and Governance of Public Transit in the Montréal Metropolitan Area

For the year ended December 31, 2020, the status quo was maintained in terms of the governance of the STM, since the 2017–2019 agreement between the Autorité régionale de transport métropolitain (ARTM) and the STM expired on December 31, 2019. We will review the new agreement and analyze its impacts in the light of the existing legislative and contractual framework and any new ways of working that may exist. Management must assess the impacts that could result from this new agreement.

## Mixed Expenditures

Under the *Act respecting the exercise of certain municipal powers in certain urban agglomerations* (CQLR, chapter E-20.001), completed by the *Montréal Agglomeration Order* (order-in-council 1229-2005) as subsequently amended, expenditures incurred by the City in the performance by the municipal administration of an act that comes under both urban agglomeration power and another power are considered mixed expenditures. They are broken down between local and agglomeration powers in accordance with the criteria established by management pursuant to by-law RCG06 054 adopted by the urban agglomeration council on December 13, 2006, and its subsequent amendments.

Jointly with Deloitte, we conducted the audit of the table of mixed expenditures incurred by the City broken down by local and agglomeration powers. On May 10, 2021, we produced an unqualified joint report indicating that the breakdown of mixed expenditures meets compliance requirements in all material respects.

## Other Reports

On June 19, 2020, the Auditor General and Deloitte sent a report to management and the City's Audit Committee that consolidated deficiencies in internal control and contained observations related both to Information Technology General Controls (ITGC) that were identified during the audit of financial statements as of December 31, 2019, and to follow-up on deficiencies reported in previous years. Deficiencies in internal control and ITGC observed during the audit of financial statements as of December 31, 2020, and the follow-up to previous deficiencies had not been presented to the Audit Committee at the time of publishing this report.

## Summary of Recommendations

Over the years, we issued a series of recommendations within the scope of the financial audit of the City. The following table provides a summary of the unresolved recommendations for each major area as of December 31, 2019.

**TABLE 1**

### Recommendations Still In Progress for Each Process for the Year Ended December 31, 2019

Recommendations	Number of Recommendations per Year					Total
	2015	2016	2017	2018	2019	
Information technology (financial application)	-	-	1	3	1	5
Capital assets process	-	3	-	-	2	5
Purchasing process	3	1	-	-	-	4
Process for establishing provisions and depreciating assets or liabilities	-	-	1	2	1	4
Revenue process	-	-	-	3	1	4
Transfer revenue process	-	-	-	1	-	1
Transfer payment process	-	-	1	-	-	1
Fair market value assessment process	-	1	-	-	-	1
Financial information process	-	1	1	-	1	3
<b>Total recommendations still in progress as of December 31, 2019</b>	<b>3</b>	<b>6</b>	<b>4</b>	<b>9</b>	<b>6</b>	<b>28</b>

## 2.3. Financial Statements of Other Legal Entities Subject to the *Cities and Towns Act*

Pursuant to sections 107.7 and 107.8 of the CTA, the Auditor General must, to the extent deemed appropriate, audit the financial statements of the other legal persons covered by the CTA who meet any of the following conditions:

- It is part of the reporting entity defined in the municipality's financial statements;
- The municipality or a mandatary of the municipality appoints more than 50% of the members of the board of directors;
- The municipality or a mandatary of the municipality holds more than 50% of the outstanding voting shares or units
- Any body covered in the first paragraph of section 573.3.5 of the CTA when any of the following conditions is met:<sup>1</sup>
  - i) its budget is adopted or approved by the municipality;
  - ii) more than half of the body's funding is secured by funds from a municipality and its annual revenues are equal to or greater than \$1,000,000;
  - iii) it is a mandatary or agent of the municipality or is designated by the Minister of the MAMH as being subject to municipal contractual regulations and its main place of business is on the territory of the municipality.

The following table identifies the other legal persons covered by the CTA for which, following our risk assessment, we deemed it appropriate to continue the financial audit work and produce a joint report on the financial statements with the auditor appointed by the City.

<sup>1</sup> Amended in December 2019, thereby offering the possibility of going back two years.

**TABLE 2**

**Legal Entities Subject to Section 107.7. of the *Cities and Towns Act* for which the Auditor General has Deemed it Appropriate to Continue the Financial Audit Work as of December 31, 2020**

Other legal entities subject to the <i>Cities and Towns Act</i>	Reporting entity	Date of the auditor's report for the fiscal year ending December 31, 2020
Société de transport de Montréal (Financial report and form required by MAMH)	●	April 7, 2021
Société d'habitation et de développement de Montréal	●	March 30, 2021
Société du parc Jean-Drapeau	●	March 25, 2021
Agence de mobilité durable	●	April 16, 2021
Société en commandite Transgesco	(1)	March 25, 2021

(1) Subsidiary of the Société de transport de Montréal.

## Société de transport de Montréal

The STM was incorporated under the *Act respecting public transit authorities* (CQLR, chapter S-30.01).

Its mission is to provide the ARTM with the public transportation services covered by an agreement concluded under section 8 of the *Act respecting the Autorité régionale de transport métropolitain* (chapter A-33.3) and collaborate, at its request, in the planning, coordination, development, support and promotion of public transportation.

### Report

On April 7, 2021, we issued an unqualified joint auditors' report for this organization.

This is an extract from the report:

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the STM as of December 31, 2020, and the results of its operations, changes in its net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

## Société d'habitation et de développement de Montréal

The SHDM is a non-profit organization that reports to the City, incorporated by letters patent on June 15, 2010, by the Government of Québec pursuant to chapter V of schedule C of the *Charter of Ville de Montréal* (CQLR, chapter C-11.4).

Its objectives are:

- to contribute to economic and social development through the enhancement of residential, institutional, industrial, commercial and cultural property assets in the City's territory;
- to acquire, renovate, restore, build, demolish, sell, lease or administer buildings in the City's territory;
- grant subsidies and administer programs for the construction, renovation, restoration, demolition and relocation of buildings in the City's territory.

### Report

On March 30, 2021, we issued an unqualified joint auditors' report for this organization.

This is an extract from the report:

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the SHDM as of December 31, 2020, and the results of its operations, revaluation gains and losses, changes in its net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

## **Société du Parc Jean-Drapeau**

The SPJD is a non-profit organization that was incorporated on August 9, 1983, under section 223 of the Charter.

Its purpose is to operate, administer and develop SPJD, which includes Sainte-Hélène and Notre-Dame islands in Montréal. It manages recreational, cultural and tourist activities and carries out any other mandate entrusted to it by the City.

### **Report**

On March 25, 2021, we issued an unqualified joint auditors' report for this organization.

This is an extract from the report:

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the SPJD as of December 31, 2020, and the results of its operations, changes in its net financial assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

## Agence de mobilité durable

The AMD is a non-profit organization that was incorporated on February 21, 2019, under section 220.4 of the Charter.

The mission of the AMD is to ensure the management, regulatory enforcement and development of paid on-street and off-street parking throughout the City's territory.

### Report

On April 16, 2021, we issued a joint auditors' report without reserve for this organization.

This is an extract from the report:

### Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial situation of the AMD as of December 31, 2020, and the results of its operations, changes in its net financial assets and cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

## Société en commandite Transgesco

The société en commandite Transgesco was formed under a partnership agreement on July 2, 2003, within the meaning of the Civil Code of Québec.

Its purpose is to manage various partnerships with private sector stakeholders in connection with business activities related to the STM.

### Report

On March 25, 2021, we issued an unqualified joint auditors' report for this organization.

This is an extract from the report:

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Société en commandite Transgesco as of December 31, 2019, and the results of its operations, changes in its net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.



